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Pondering a Pension Cut

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Federal employes retiring in the future at age 55 would get only half the pension benefits available to current civil servants under a revised U.S. retirement plan that federal officials say President Reagan will recommend in his budget.

Workers who have not yet celebrated their 45th birthday—about half the federal work force—would be hardest hit by the controversial pension plan, which would have to be approved by Congress.

Under the plan, full retirement benefits for future federal workers would be available only when they reach 65. Although feds can now retire at 55 after 30 years' service, the average employe works until age 61. Most private sector workers retire at about age 62, when reduced Social Security benefits are first available, according to the Congressional Research Service.

The retirement "reform" is aimed at cutting costs by requiring employes to work longer and pay more into their pension plan, and to shorten the time they draw benefits.

Federal pension benefits—which do not include Social Security—are based on the employes' salary and length of service. Employes must work almost 42 years to get the maximum benefit, 80 percent of salary, under the current system. But feds can retire at age 55 with 30 years on an annuity equal to 56¼ percent of their highest three-year average salary.

Reagan's plan, which Congress ignored when it was presented two years ago, would still permit retirement at 55. But employes who did so would get annuities less than half those available to workers retiring at the same age today.

If Congress approves the retirement changes—and that is by no means certain—they would affect employes depending on their age. It is complicated, but this is how it would look:

- Workers who are 55 (or older) are home free. They would be "grandfathered" into the present system. They could retire at 55 (with 30 years) or continue to work without being affected by the higher retirement age.
- Workers who are under age 45 would automatically go under the new system. They would have to work until age 65 to get an unreduced pension. They could still retire at age 55 with 30 years, but their pension would be slightly less than half that under the current system.

Example: Under the present system, employes with 30 years' service can retire at age 55 on an unreduced annuity. That annuity is equal to 56.25 percent of their highest three-year average salary. It works out to an annuity of about 53 percent of their final salary. Employes now may retire on unreduced benefits at 60 (with 20 years' service) or at 62 with five years' service.

The new system would reduce the annuity by 5 percent a year for each year that an employe was under age 65. If the new system went into effect, employes fully covered by it who retire in the future at age 55 with 30 years' service would get an annuity equal to less than 28 percent of their highest five-year salary. That's less than half the pension available to workers retiring today with the same service and age.

- Workers who are between 45 and 55 when the changes are made would have their benefits reduced on a sliding scale if they retired before age 65.

An employe who is 46 when the new rules go into effect would (if he retired at age 55 with 30 years) have pension benefits reduced 45 percent.

An employe who is 50 when the rules change could retire five years later, but the pension would be reduced by 25 percent from the current level.

An employe who is 54 when the change is made could retire the following year (with 30 years' service) with a 5 percent annuity reduction.